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Covid-19 heats up competition in Canadian digital banking

ANALYSIS

Challenges and challengers: SME specialists show promise in 2021

INSIGHT

Temenos: Data must flow in all directions for open banking to succeed

THIS MONTH

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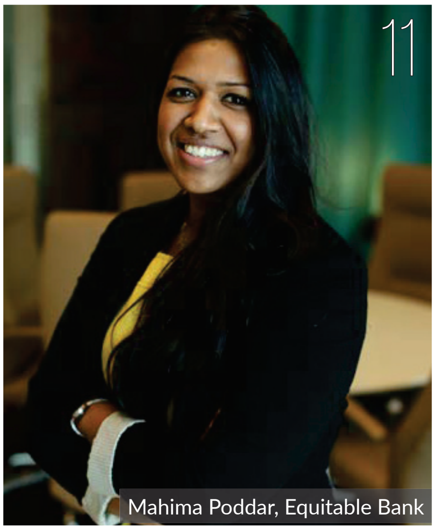

Mahima Poddar, Equitable Bank

ANALYSIS

INDUSTRY INSIGHT

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EDITOR'S LETTER

UK REGULATOR CATCHES UP WITH BNPL SECTOR

Douglas Blakey, Editor

And about time too. The UK government has announced plans for the buy-now-pay-later sector to be regulated by the Financial Conduct Authority.

BNPL products are currently exempt from regulation but albeit from a low base, the sector is growing at pace. The use of BNPL products nearly quadrupled in 2020 in the UK and now represents transactions worth £2.7bn per year. Some five million consumers have used BNPL products since the beginning of the coronavirus pandemic. For many consumers, the option of using BNPL products has appeared to represent an alternative to more expensive forms of credit. But as many observers have argued, BNPL growth comes with the potential for consumer harm. As the FCA notes, more than one in ten customers of a major bank using BNPL is already in arrears. Regulation is needed therefore, to protect people who use BNPL products and make the market sustainable. What is proposed is not exactly draconian or an attack on the BNPL operators. The FCA will be tasked with ensuring that BNPL platforms conduct proper affordability checks before lending. At the moment, consumers typically spend about £65 to £75 in a single transaction. They can however use multiple BNPL providers without their overall expenditure coming to the attention of other lenders.The government has woken up to the fact that consumers can easily accrue debts approaching four figure sums, unknown to the established banks or credit reference agencies. BNPL firms will now need to ensure that customers are treated fairly if they are struggling to repay. And it will afford consumers the right to complain to the Financial Services Ombudsman if they have a grievance.

BNPL: irresponsible marketing

The BNPL sector in the UK would do well to accept the need for regulation. There have been isolated examples of irresponsible marketing. For example, in 2020, Klarna ran content on Instagram encouraging consumers to use its products to cheer themselves up during lockdown.

Klarna claims to have more than 10 million UK customers with an average age of 33. Social media 'influencers' praised Klarna while boasting about 'splurging' on clothes and beauty products.

The last capital raising at Klarna - $650m was raised – valued the firm at over $10bn in September 2020. As recently as 2019, Klarna was valued at $5.5bn. Amid all of the BNPL hype and concern of politicians - UK Labour politician Stella Creasy claims that BNPL is the next 'Wonga waiting to happen – some context is required.

Political concern is however understandable when one considers the latest data from the UK Office for National Statistics. It reported in January that almost nine million UK consumers were forced to increase their borrowing in 2020 to cope with the pandemic. In addition, the ONS found that the proportion of consumers borrowing £1,000 or more increased from 35% to 45% post the first lockdown. The valuation of the BNPL sector firms seem wildly overblown. In time, it will perhaps become apparent that BNPL is not something novel or a great innovation. It has been around for years. While it has grown in 2020 at an impressive rate, it still does not equate to more than 1% of retail payments.

BNPL Australia: a mere 50 basis points of payments.

One needs to look no further than Australia to understand the BNPL market. Eight BNPL platforms have floated there since 2016, all offering unregulated financial products. Other operators have plans to launch BNPL platforms. According to data from an old ally of this column, Grant Halverson CEO of McLean Roche, the eight listed stocks have a combined market cap of A$35.8bn but make no profits. They report total revenues of A$891m with 16.2 million customers in 11 markets. Total bad debts have hit A$267.8m or 30% of revenues. Bad debts are BNPLs largest expense. Accumulated losses have now hit A$400m and counting. It is right and timely that the BNPL sector in the UK is to be regulated. But even in its strongest market in Australia, BNPL still has not really scaled up. On Halversen's figures, the market share for BNPL in the fourth quarter of 2020 was a mere 50 basis points of payments. Regulators outside the UK are also likely to take action. It will be fascinating to observe the market movement of the listed BNPL operators and estimated valuations attributed to the unquoted outfits. ■

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NEW YEAR KICKS OFF WITH STRONG JOBS MARKET

BANKING JOBS SNAPSHOT FOR WEEK BEGINNING 4 JANUARY

In the month of January there were 53,329 new banking jobs posted by the world's largest 1,000 financial services firms, according to the GlobalData jobs analytics tool. While the major US banks are the most active, notable banks in Europe and Canada are also hiring, writes *Douglas Blakey*

Despite the hammer blow of a pandemic induced recession, banking employment numbers held up last year at the largest banks in the US.

To date, the double whammy of declining branch numbers and the rising use of AI has not hit employee numbers. Total US branches inched down by 4% in 2020 as the digital banking drive accelerated. But across the largest US banks, total FTEs dropped by only 0.4%. And if the first month of 2021 is anything to go by, the jobs market within US banks remains resilient.

JPMorgan Chase is the most active bank globally in terms of new job postings, with 5,414 roles listed in the month of January.

Wells Fargo lists 3,299 new roles with Citizens (1,556) and PNC (1,022) also active.

Other prominent hirers include Bank of America (925), Morgan Stanley (762) and Truist (709).

Goldman Sachs continues its recruitment drive witnessed in 2019. Goldman Sachs posts 625 jobs in January as it ramps up its move into retail banking. Last year, Goldman Sachs notably grew FTEs in the US by 20% to almost 2,000. Outside the US, Mexico's Banco Nacional de Mexico is responsible for the second- largest new wave of jobs with 3,757 new jobs posted in the month of January. Meantime, the Canadian majors are off to a strong start in 2021. Scotiabank posts 1,655 jobs ahead of RBC (919) and BMO (918) and Toronto Dominion (380). Notably, CIBC Wealth Management posts 649 new listings. Another active private banking unit is Wells Fargo Private, with 368 new roles listed.

Banking jobs snapshot: European highlights

Elsewhere, jobs growth in Europe is more muted but there are exceptions with BNP Paribas the most active. BNP Paribas' asset management unit posts 1,263 jobs while BNP at group level posts 1,103 new job listings.

Rivals BPCE and Société Générale each list over 600 new posts.

Other notable European headquartered hirers include Standard Chartered (1,490), Belgium's KBC (1,453) and Barclays (853).

Banks based in Poland are active, notably the local unit of Santander with 783 listings. Both Swiss majors, UBS and Credit Suisse list over 400 new posts.

In the Middle East, Abu Dhabi Islamic Bank is a notable hirer with 438 jobs posted. In South America, the local unit of Scotiabank lists 664 new roles.

South Africa's Standard Bank is the most active in the region with 227 new roles listed in January, ahead of Absa (134). In Singapore, DBS lists 300 new posts while the major banks in Australia are also active.

NAB lists 304 new roles ahead of Macquarrie (257), ANZ (226) and Westpac (217).

At the other end of the scale, a number of notable retail banks listed no new jobs during all of January, including US Bancorp and NatWest Group.

Grab Financial: raising capital and major jobs drive

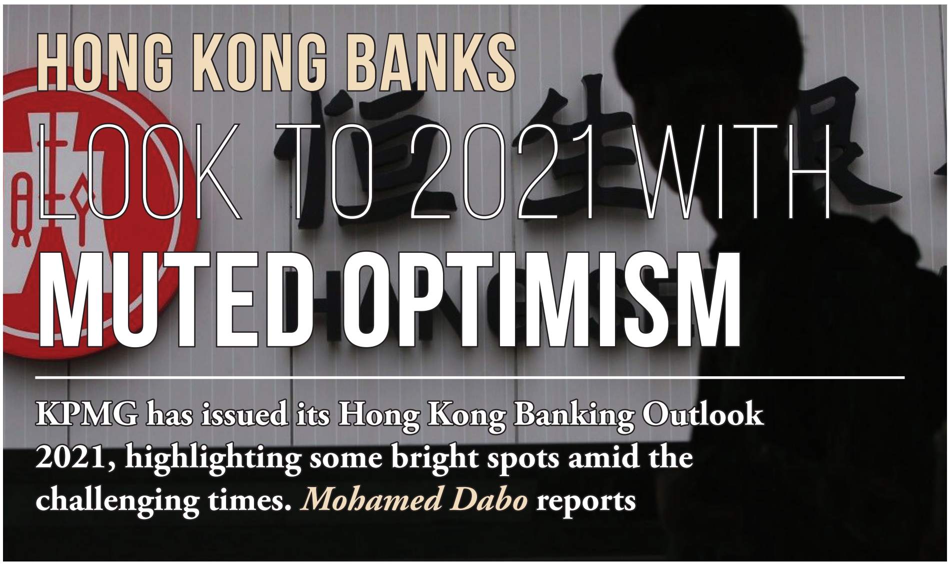
The most active digital challenger in January is Grab, the Asian ride hailing app. Grab kicked off 2021 by raising $300m from backers for its financial services arm. Grab Financial is now valued at about $3bn.

The new funds will be used to launch its proposed digital bank in Singapore. In addition, Grab Financial is rolling out a buy-now-pay-later programme. And it is on a recruitment drive. Grab Financial ends January with 527 active jobs listed having closed off 194 roles during the month.

While Grab has big ambitions and deep pockets, it will find the BNPL sector is becoming a crowded market where it operates. Razer is rolling out a BNPL product while Agoda aims to offer BNPL products in Malaysia and Singapore.

The RBI website will track banking job listings throughout the year with weekly updates. In addition, RBI will identify jobs market trends and insights with data from GlobalData's proprietary Intelligence Center jobs datatool that are of relevance for the industry. ■

GrabFinance



HONG KONG BANKS LOOK TO 2021 WITH MUTED OPTIMISM

KPMG has issued its Hong Kong Banking Outlook 2021, highlighting some bright spots amid the challenging times. *Mohamed Dabo* reports

When the Netherlands-based international consulting firm issued its outlook for 2020 a year ago, Hong Kong's economy and banking sector were facing market uncertainty and disruption largely due to social unrest and US-China trade tensions.

As 2021 dawns, the new report strikes a more upbeat tone, as reflected in its predictions covering 10 key areas across the banking industry:

1. Sector outlook

The shift from interest income to fee-earning activities will create growth opportunities for banks that get it right—but be wary of the risks. With Hong Kong weathering the challenges brought about by Covid-19 relatively well in terms of containing the virus, ensuring operational resilience and pushing through financial relief measures for businesses, the banking sector has also remained in reasonable shape in 2020.

2. Non-performing loans (NPLs)

NPLs in Hong Kong are expected to increase as businesses face prolonged economic uncertainty. Despite signs of recovery in mainland China, banks in Hong Kong will need to maintain extreme vigilance as non-performing loans (NPLs) are expected to increase in 2021.

3. Regtech

Regtech (regulatory technology) refers to computer programmes and other technology used to help banking and financial companies comply with government regulations. Regtech adoption will not be an aspiration in 2021, it will be a necessity.

With Covid-19 rapidly transforming business and operating models, the application of regulatory technology will transform risk management and compliance and present significant growth opportunities for banks in Hong Kong in 2021.

4. Financial crime compliance

Regtech, network analytics, and information sharing are key to combating increasing financial crime in 2021. The report predicts that one outcome of this in 2021 will be that all retail banks in Hong Kong will have a digital on-boarding channel, with a significant majority of new customers being on-boarded entirely digitally.

5. Digital transformation

Digitalisation is set to transform SME banking in 2021, while non-banking-led partnerships will emerge in retail banking. With Hong Kong's banking sector is undergoing rapid digital transformation this year, the banks that venture beyond pursuing fundamental digital initiatives such as basic automation will reap the benefits, while those who do not will struggle to remain competitive.

6. Operational resilience and third-party risk management

Banks that bolster their operational resilience and third-party risk management in 2021 will be best placed for success.

The KPMG experts predict that banks will significantly increase their focus in the year ahead on optimising their setup for more remote and agile working. However, the reality is that some banks are still not fully equipped or ready for this change.

7. Regulatory focus areas

Credit risk and emerging risks arising from new business models will be front and centre for regulators in 2021.

Hong Kong's banking industry has faced unprecedented challenges over the past 12 to 18 months as a result of Covid-19, social unrest and ongoing US-China trade tensions.

These challenges have brought operational resilience and credit risk management to the fore and have given rise to new and evolving risks as banks transform their business models to adapt to the new reality.

In 2021, the experts predict that banks will continue with their agile working arrangements. The researchers expect the regulators to increase their focus on ensuring that banks demonstrate sound and robust risk management practices, systems, and controls to effectively manage the increasing levels of credit and emerging risk.

8. Environmental, social, and governance (ESG) criteria

Banks will take firm action to integrate ESG into their business in 2021, with a focus on capacity building. Despite a challenging and disruptive 2020 that has caused banks to rethink their business and operating models, ESG issues will remain a key priority for banks in Hong Kong in the year ahead.

The first set of 50 licenced banks have completed their self-assessments as part of the Hong Kong Monetary Authority's (HKMA) Common Assessment Framework – which measures an institution's readiness to manage climate and environmental-related risks – and the HKMA is expected to call on the remaining banks to follow suit.

9. Tax reimaged

BEPS 2.0 developments and the impact of Covid-19 will expedite the digitalisation of banks' tax functions in 2021. The rapidly changing environment caused by Covid-19 and the resulting disruption to organisations – including their tax functions – is spurring banks to explore a fresh approach to managing their tax obligations.

10. Greater Bay Area

The Greater Bay Area will remain a key growth driver for many domestic and international banks in Hong Kong.

As mainland China continues along its path to recovery from the disruption and challenges caused by Covid-19, KPMG expects to see renewed interest from international and domestic banks in Hong Kong in expanding onshore, with the Greater Bay Area (GBA) a key opportunity. ■

CREATING VALUE BEYOND BANKING

RBC is going beyond banking to create meaningful solutions designed to touch every Canadian by building new ventures, acquiring growing firms, making investments and partnering with organisations that share its vision. As *Douglas Blakey* reports, the goal is to offer products and services that solve problems and make lives better

As he walked around the office floor, Mike Dobbins looked at the colorful sticky notes in neat rows on the walls depicting new businesses being developed by his team. The walkabout is one of his favourite things to do – or was when employees were all in the office.

Teams would often be seen scribbling and reordering these tasks together, side by side, and Dobbins would stop to ask a question or two.

Dobbins looked at these sticky notes, left as they were on the walls nine months ago. They were frozen-in-time evidence of the many ideas, next steps, goals and forecasts of the last in-office interactions of the RBC Ventures team in downtown Toronto.

RBC Ventures, a start-up within a bank ecosystem, was about to begin its third year amidst a second wave of a global pandemic. From AI-assisted home search to marketing platforms like Ampli to support Canadian businesses, the overarching goal remains the same: to tackle big challenges that go beyond banking and create value for clients.

Dobbins, Group Head of RBC Ventures and a member of RBC's Group Executive team tells RBI: "We've developed a platform to build innovations beyond banking – to meet more customers, provide more value. With the digitisation of everything and the growth of large platforms, everything that was behind our 'beyond banking' strategy is now accelerating."

RBC Ventures: driving material growth

"My vision is that RBC Ventures will drive material growth for the enterprise, while also competing and winning in new parts of the ecosystem. We want to position RBC as a one-of-a-kind bank by creating a defensible difference. And we're off to a good start."

The RBC Ventures journey began when RBC leadership, including CEO Dave McKay, believed that RBC could do more for the communities that it serves, and for the ones it didn't – yet. The bank has stood as a trusted institution for more than 150 years as a place to store, move, lend and invest money, but it also saw significant forces of change in the industry where emerging fintechs and non-traditional players were aggressively filling gaps that traditional banks did not.

Creating RBC Ventures as an entirely new division to incubate new ideas beyond banking was a bold move for RBC, Canada's largest bank by market capitalisation. By design, it marries a start-up mentality with the strength and resources of a bank and manages its portfolio with a build, buy, invest and partner approach to achieve its goals.

RBC Ventures was unveiled on 13 June, 2018 at RBC's Canadian retail-focused Investor Day as a new strategy to dramatically accelerate RBC's growth. That day, Dobbins unveiled several of the ventures that were being developed or had just been launched and described his focus on major ecosystems such as home and B2B where there was an opportunity to enter new segments and create more growth, more value.

RBC Ventures: 14 and counting

The team has grown significantly since launch, and has attracted talent with a variety of professional experiences and skillsets, such as data scientists, ethnographers, entrepreneurs, product owners, and a lot of tech expertise.

"Nothing happens in any company without talent," says Dobbins, who is quick to add that this team is the smartest and most creative he's worked with in his 25+ year career as a banker in Canada and the United States. Today, RBC Ventures has 14 ventures in market, with more in development and a handful that have been retired, as is the nature of the innovation cycle. While most of the ventures in the portfolio are built in-house, it has also made acquisitions and invested in a number of companies that develop transformational technologies so that RBC Ventures can expand its capabilities and accelerate growth. The products and services focus on key growth areas and are organised under the segments of Home, Mobility, Health and Wellness, Business Services and Lifestyle.

"We are seeing many signs that our ventures are resonating with customers. While we couldn't predict all the steps on our journey, we focused on: find great people, think of great ideas, and then move quickly," says Dobbins.

Scale and synergies

Ownr, one of the earliest ventures in the portfolio, is setting the example of a new proven business channel for RBC to connect with, and deliver value, for entrepreneurs in their business journey. Developed internally, Ownr assists entrepreneurs by providing digital registration and incorporation services. To date RBC has supported over 25,000 business starts and of those incorporated, nearly 60% chose RBC for business banking.

"Ownr is a great example of what we're

trying to do. We meet clients earlier on their journey, solve multiple needs with a bundled value proposition and increase our market share in a critical segment," says Dobbins.

As Ventures mature, new opportunities for growth present themselves, as was the case with the acquisition of legal tech platform Founded Technologies. It not only added scale and synergies to Ownr – it introduced new subscription services which can be bundled for new businesses and sold directly to existing clients.

"Every decision we make is grounded in how we help small business owners start and succeed. With our recent acquisition of Founded Technologies, we're solidifying our current strengths in business formation while building towards our broader goals—helping entrepreneurs at every stage of their journey," says Shadi McIsaac, co-Founder of Ownr. She says the pandemic has had a significant impact on Canadian small businesses, and despite those challenges, Ownr has seen a rapid increase in entrepreneurship activity across Canada, with 100% growth in business formations since February 2020.

Pivots during a pandemic

When the pandemic hit, all Ventures employees shifted to work remotely. Dobbins asked each of the ventures to assess how they would pivot their businesses in the event that the days at home turned to weeks and, perhaps, months. Slack, already a preferred channel of communication among the Ventures team, became an even more critical tool. Ideas that used to be captured on sticky notes on the office wall transferred to online whiteboarding and video calls.

"We've always been focused on creating meaningful solutions that touch every Canadian, and we've always taken a human-centered approach to innovation. The pandemic got us thinking about how to take a step back and help ease the stress and take care of our communities," says Dobbins.

For example, the pandemic emphasized the problem of social isolation, especially among the retired and semi-retired. As this was the core audience for the venture Boomerang, this team moved all of its workshops to a virtual setting in a matter of weeks and, in the process, accelerated its local offerings to a much broader audience that was connected online.

Some ventures used their platforms to help raise money for local food banks and others in providing grants and other support for Canadian businesses.

As the financial challenges due to the economic impacts of Covid-19 continued to weigh on clients, RBC Ventures was at the centre of designing Canada United, an ambitious programme to support the recovery of Canadian businesses.

The initiative brought together different parts of the bank from coast to coast, more than 70 of Canada's leading brands, the national Chamber of Commerce network and business associations to rally Canadians to "show local some love" by buying, dining and shopping local. This massive campaign led to over $14m being raised for small business grants issued by the Chamber of Commerce network.

The pandemic provided opportunities to show how digital innovations can make life simpler and demonstrate how a bank can grow and evolve as it serves its communities with purpose.

"Ventures is bigger than any one idea - it learns and grows from all ideas," says Dobbins. "We've sparked the imagination of what moving beyond banking could look like. We have an amazing team, tremendous support and are excited about what the future holds." ■

RBC, REXALL TEAM UP TO REWARD CANADIANS FOR MANAGING THEIR HEALTH AND WELLNESS

RBC has long been renowned for its world class loyalty and rewards programme. And now RBC clients can now receive additional value and savings through Rexall's Be Well loyalty programme.

Specifically, the RBC, Rexall strategic partnership gives RBC clients enhanced value and savings while accessing Rexall's health and wellness resources. RBC customers will receive 50 Be Well points for every C$1 spent on eligible purchases at Rexall when they link their eligible RBC credit and debit cards to their Be Well card. This delivers five times more value than non-RBC Be Well members or unlinked RBC clients. "We're thrilled to be adding Rexall to our highly successful loyalty partner programme," says Sean Amato-Gauci, Executive VP, Cards, Payments & Banking, RBC.

"Through our proprietary RBC Rewards loyalty programme and strategic loyalty partnerships, our clients receive additional ways to instantly save and earn more RBC Rewards points. We're proud to be partnering with Rexall, a company that shares our common values of supporting the health and wellness of our employees and clients."

RBC, Rexall strategic partnership: exclusive offers and promotions

RBC customers can now visit *www.rbc.com/*rexall to learn more about this new programme. Plus, linked RBC clients will have exclusive access to offers and promotions. Rexall's Be Well loyalty programme launched last September. It already has over 1.7 million members and provides access to tools and insights into managing and improving health and wellness, while also delivering value and savings.

"This new offering enhances our mission of making the journey to better health and wellness easier, simpler, and more rewarding," says Nick Caprio, President, Rexall. "We're looking forward to growing our partnership with RBC to give additional tools and benefits to Canadians searching for a path to better health."

RBC, Petro-Canada: over C$60m in fuel savings

Rexall joins Petro-Canada in RBC's growing portfolio of loyalty programme partners. Since launching in 2017, the Petro-Canada strategic partnership has enabled clients to instantly receive 3¢ per litre on fuel every time they pay with their linked RBC card. Moreover, customers earn 20% more PetroPoints and, if applicable, 20% more RBC Rewards points.

The programme has already helped clients realise over C$60m in fuel savings and this number continues to grow. ■

COVID-19 HEATS UP COMPETITION IN CANADIAN DIGITAL BANKING

As Covid-19 drives Canadian consumers to digital banking, competition is growing between incumbent and digital challenger banks. Digital entrants entice customers with interest-paying hybrid chequeing and savings accounts, cashback on purchases, and digital mortgage applications, while incumbents counter with iPads, sign-up bonuses, and below-market-rate mortgages. *Robin Arnfield* reports

Canadian challenger banks have all reported considerable increases in customer acquisition and deposits, due to their high savings interest rates, as Covid-19 has led to growth in consumers banking, shopping, saving and borrowing online. In addition, consumers are using the cashback rewards paid by several challengers for essential purchases rather than for travel.

Canadian challengers fall into two categories: digital stand-alone subsidiaries of credit unions or smaller specialist banks; and prepaid card issuers. The first category includes EQ Bank, Motive Financial, Motusbank and Oaken, which leverage the staff, banking licences and core banking systems owned by their parents: Equitable Bank, Canadian Western Bank, Meridian Credit Union, and Home Bank, respectively.

Two prepaid card issuers, Koho and Mogo and a credit card issuer, Neo Financial, have partnered with banks to offer a range of additional products, while not holding banking licences themselves. Investors have been attracted to these companies' expanding banking capability and customer acquisition pull. Koho raised C$67m in financing in 2019, while Neo Financial raised C$50m in Series A funding and debt financing in December 2020.

Mogo is listed on Nasdaq and the Toronto Stock Exchange with a market capitalisation of C$141m in December 2020.

Canadian digital challenger banks commonly offer consumers a range of savings products with rates that are higher than those offered by the big banks. These include instant-access deposit accounts and Guaranteed Investment Certificates (fixed-term savings accounts with their own insurance separate to other insured bank accounts). The GICs can either be held on a stand-alone basis or within the wrappers of Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs).

INCUMBENTS FIGHT BACK

In response, three incumbents with the advantage of brand familiarity and branch presence, BMO Bank of Montreal, Scotiabank and TD, are each offering C$300 to customers opening new unlimited-transaction chequeing accounts, while RBC is offering a 10.2-inch iPad. HSBC is offering default-insured mortgages at a five-year variable rate of 0.99%.

Savvy consumers pick and chose from the financial products on offer from incumbents and challengers. "The stimulus for challengers to get a share of the market is the lure of lower fees and higher savings interest rates," Christie Christelis, president of Canadian consultancy Technology Strategies International, said. However, most consumers prefer to use incumbents as their primary bank where they receive their salaries and pay bills, while using challenger banks for savings.

The drawback of this approach is that the challenger bank doesn't have a complete picture of their customers' finances, said Celent analyst Stephen Greer. "Consequently, the challenger bank can't easily offer them additional products or value-added insights into their finances," he said.

OPEN BANKING

The playing field between Canadian incumbents and challengers is set to level with proposed legislation for consumer-directed data. Inspired by jurisdictions that have adopted open banking such as the UK, the Canadian government has been edging towards introducing open banking.

In November 2020, the Department of Finance began the second phase of its stakeholder consultation on open banking, which was launched in 2019. The second phase focuses on determining how regulators and the financial sector can mitigate data security and privacy risks associated with open banking, and will review governance, consumer control of personal data, privacy and security.

In November 2020, Canadian Innovation Minister Navdeep Bains tabled Bill C-11 which includes the Consumer Privacy Protection Act and the Personal Information and Data Protection Tribunal Act. The legislation proposes ways of sharing customer data and mandating data portability. It gives Canadians the right to request data that companies have collected about them, and to move their data from one organisation to another, for example when changing banks.

Senator Colin Deacon, a member of Canada's Standing Senate Committee on Banking, Trade and Commerce, said the new legislation represents a step towards open banking. "I think open banking is critical and is all about competitiveness," he said.

Open banking will make it easier for digital challenger banks to on-board new customers by providing secure and consent-based access to account applicants' existing financial data.

Unlike traditional banks, Canada's digital challengers offer digital-only customer enrollment, using credit rating agencies for identity checks, instead of requiring customers to send them paper documents. But the digital account-opening and identity checking process would be facilitated by using interoperable open banking APIs.

"Open banking's central benefit is that giving customers control over when and how they share their financial data will spur the development of the types of tailored products and services that create a more innovative and competitive market," said Mahima Poddar, Equitable Bank's SVP and group head of personal banking, who is responsible for EQ Bank.

"Many important financial services innovations have happened in recent years in Canada, including the provision of exchange-traded funds (ETFs), robo-advisers, all-digital international money transfers, reverse mortgages and free credit scores. But many occurred outside the traditional banking sector, and all were created by innovators lacking access to consumer data to guide them," Poddar said.

EQ BANK

EQ Bank's strategy of attracting customer funds with its combined chequeing and savings account made 2020 a good year for the bank, as it benefited from accelerating growth in digital financial services.

In Q3 2020, EQ Bank acquired 25,000 new customers, leading to a 68% year-on-year rise in total customers. Monthly account openings in Q3 were almost three times EQ Bank's 12-month average.

EQ Bank was launched in 2016 by Equitable Bank, Canada's ninth largest domestically owned bank with assets under management of C$35bn. As of 30 September 2020, EQ Bank had 149,000 customers and C$4.3bn in deposits, up from C$2.5bn a year earlier.

EQ Bank's flagship is the Savings Plus Account, a hybrid chequing and savings account with a high interest rate, free transactions, no everyday banking fees, and no minimum balances. The account provides an alternative to sweep accounts as funds on deposit earn interest while waiting to be used for bill payments and other transactions. The bulk of EQ Bank's customer deposits are held in Savings Plus accounts, although it also offers GICs, TFSAs and RRSPS.

"We wanted to go to market with a different product from what is traditionally offered by banks," said Poddar. "We said: 'what if we get rid of the artificial construct of the chequeing account and the savings account?' So, we created a hybrid chequeing and savings account with a high interest rate and no banking fees that lets you do the vast majority of your everyday banking with EQ Bank."

While the Savings Plus account doesn't include an ATM/debit card, EQ Bank has made it easy for customers to move money into and out of their accounts. "We offer unlimited free Interac e-Transfers and we enable EFT (electronic fund transfer) pull and push payments at no cost,", Poddar said.

Interac e-Transfer is a P2P payment service operated by Canadian debit network Interac, while EFTs are pre-authorised bank transfers taking place over payment infrastructure operator Payments Canada's clearing and settlement network.

EQ Bank is the first Canadian bank to integrate TransferWise's API so customers can send money abroad direct from the EQ banking app instead of having to log into TransferWise.

"As we have a direct API integration with TransferWise for international transfers, we withdraw the funds instantly from the customer's account, and send them immediately to TransferWise," Poddar said. "Due to the amount of business we do with TransferWise, we pass on volume discounts to clients. "Our customers are generally cashless and most use rewards-based credit cards which they pay off, so there isn't a real demand for debit cards," said Poddar. "But we're developing a payment card that we hope to launch in 2021. Customers will be able to use the card to get cash from ATMs, at the point of sale, or for e-commerce. We're going to partner with one of the payment networks to offer the card, which will have a rewards element built into it."

While EQ Bank doesn't offer any lending products, its parent Equitable Bank provides reverse mortgages which are sold through the bank's mortgage broker network. "EQ Bank is experimenting with direct-to-consumer reverse mortgages, enabling customers to apply for and get commitments entirely digitally for reverse mortgages," said Poddar.

EQ Bank aims to offer higher savings rates than those paid by the big Canadian banks. Because Equitable Bank specialises in lending to people who don't meet the big banks' normal underwriting criteria, such as self-employed people, it can pass on some of the higher interest rates it charges such customers to EQ Bank savers. "These are high-quality credit applicants, but, because applicants are self-employed and maybe keep their money


Mahima Poddar, Equitable Bank

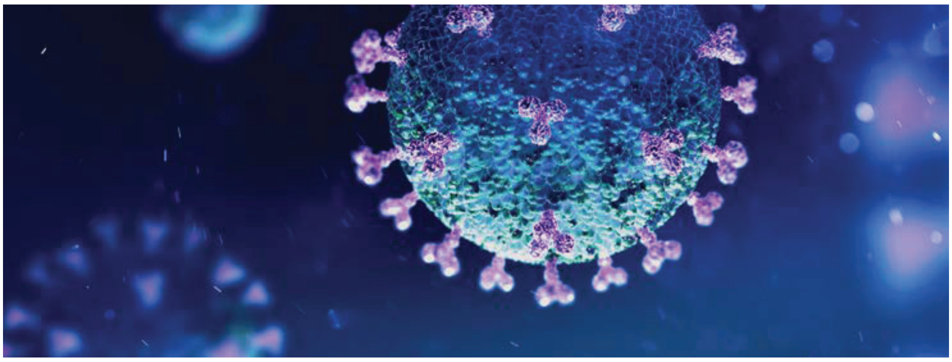
in their business for tax reasons, they don't meet standard income requirements," said Poddar. "EQ Bank's target market is people aged 25-45 in urban and suburban areas and generally with above average income and post-secondary education," said Poddar. "Traditionally, you needed to have a minimum level of savings before the perceived barriers to opening a new account made sense. We're finding that this is no longer true with Covid-19 – there's so much more openness to digital-only banks.

"We're seeing people researching the interest rates offered by big banks and comparing them to those of digital-only banks. We have quite a wide variety of customers joining, but we're seeing a ton of growth among people who are 65- plus, and on average have higher balances." Poddar said that EQ Bank's fastest growth is among 18-25 year-olds. "We always saw growth in this age group, but they weren't a big part of our customer base. But we're finding that 18-25 year-olds are value-conscious. Overall, we've seen 300% growth year-on-year in customer sign-ups during Covid-19."

KOHO

Toronto-based Koho's prepaid Visa cards pay cashback and function like bank accounts. Koho's basic card has no fees and pays 0.5% cashback on all purchases, making it an attractive alternative to the high chequeing account fees charged by big Canadian banks. Consumers can also obtain a premium card paying 2% cashback for C$84 a year or C$9 a month. According to the Globe & Mail, as of September 2020 Koho had 175,000 users.

CEO Dan Eberhard plans to expand



the Koho card's reach by linking it to savings and investment products. Koho's interest-paying savings account is due for launch in Q1 2021, and Eberhard expects all the firm's existing prepaid card customers to migrate to the new account. "The principle of what we are doing with the savings account is eliminating the complexity of a separate chequeing account, a savings account and an investment account," said Eberhard. "We're starting with a savings product, but intend to add an investment product to the account. We plan to link the savings account and associated card to a range of assets such as investments, cryptocurrency or cash savings, which could be held at another FI. Savings account-holders will be able to spend directly from their account." "It's a clever marketing approach from Koho to reward people signing up for a savings account," said Aite Group retail banking and payments research associate Francisco Javier Alvarez-Evangelista.

Funds deposited in savings accounts will be held in a trust account at a major Canadian bank by ShareOwner, a subsidiary of Canadian wealth management firm Wealthsimple. The deposits will be protected by the Canadian Deposit Insurance Corporation (CDIC).

Koho currently processes C$2bn a year in prepaid card transactions, said Eberhard. The Koho prepaid card account functions like a bank account in that customers can use it to pay bills, send Interac e-Transfers, and receive their salaries and government benefits. Funds are held by Vancouver-based People's Trust, a federally regulated and CDIC-insured bank.

Obtaining its own banking licence isn't a top priority for Koho, Eberhard said. While open banking would benefit Koho in that it would make it easier to identify account applicants using shared data from their existing bank, what Eberhard is really interested in is direct access to Payments Canada's planned real-time network.

In 2022, Payments Canada will launch the Real-Time Rail, which will provide instant 24/7 payments for consumers and businesses. Part of Payments Canada's payments modernisation program, the RTR aims to spur the development of new payments services by incumbent banks and new entrants. Under new legislation proposed by the Department of Finance, non-bank payment service providers would be able to become associate members of Payments Canada, which would grant them direct access to the RTR. Currently, only deposit-taking FIs can become Payments Canada members and enjoy direct access to its core infrastructure. This legislation would be significant for Koho, because of its focus on transactions.

Eberhard said that around 60% of Koho's transaction volume growth has been driven by people using its prepaid card as their primary account. "Our demographic is older millennials, people who are just over 30 and are making C$40,000-C$80,000 a year," he said. "Canada's banking infrastructure was set up for the Canadian banks, and that's especially true for payments relationships," said Eberhard. "The Real-Time Rail, if implemented correctly, should allow Koho and other fintechs to participate and have consistent, reliable access to real-time payment gateways. There is no payment infrastructure now in Canada for non-FIs. Currently, we have to rely on third parties to access payment services such as Interac e-Transfer as we don't have direct access."

Eberhard said that Koho is having conversations about applying for a banking licence. "But it's incredibly complicated for a fintech to get a banking licence in Canada," he noted. Koho also has credit products. "Firstly, we offer an early payroll product, allowing customers to get a C$100 advance on their paycheque for free," said Eberhard. "The uptake has been phenomenal, and now that we understand how the product works, we're going to increase the amount you can get in advance. Secondly, we're developing a credit-rebuilding product providing a fixed amount of money and reporting back to the credit bureaux, which will be considerably cheaper than any other credit-building loans on the market. We will charge a total fee of C$7 a month for each loan. A lot of the lending process is automated, so we've been able to massively reduce the cost."

MOTIVE FINANCIAL

In 2017, Canadian Western Bank (CWB), an Alberta-based bank serving business owners, renamed its online retail banking arm as Motive Financial. The stand-alone unit, which targets consumers, had previously been called Canadian Direct Financial.

CWB provides business owners with loans and day-to-day business and personal banking services, while Motive provides personal banking products across Canada to a wider customer base. "We run Motive as a separate digital challenger bank," said Jeff Wright, SVP of equipment, digital and client solutions at CWB. "Six months ago, we introduced fully digital on-boarding for new Motive accounts, and since November 2020 business owners have been able to apply totally online for CWB personal banking accounts. Currently, two-thirds of Motive applicants use a PC to open an account, with the rest using our mobile app."

CWB is currently overhauling its digital systems, and in 2021 will introduce fully digital on-boarding for CWB business banking clients. "Over the next 12 months or so we'll be replacing all of our online and mobile platforms across CWB and Motive to significantly enhance our client experience," said Wright.

CWB has seen its total loan portfolio rise from C$22bn in 2015 to C$30bn in 2020, while its deposits have grown from C$21.2bn in 2015 to C$27.3bn in 2020. "We tripled the business in the last two years or so in Motive," said Wright. In the year to 30 October 2020, deposits in Motive increased by 41% to C$1.1bn.

Motive offers the Cha-Ching low-fee chequeing account with an ATM/debit card, TFSAs, RRSPs, GICs and two different instant-access savings accounts. "Many clients prefer to have their money all in one place, as this makes it simpler," said Wright.

"Almost all our chequing account customers also have their saving accounts with us." Motive plans to launch a credit card in 2021 and is looking at offering loans. Currently, customers can only obtain loans through the parent CWB.

MOTUSBANK

In April 2019, Meridian Credit Union, Ontario's largest credit union and the second largest in Canada, launched Motusbank, a full-service nationwide digital-only bank.

Motusbank offers totally digital mortgage applications, riding on its parent Meridian's mortgage application platform, plus direct access to a self-directed online discount brokerage and a wealth management robo-advisor providing ETFs. It also offers chequeing accounts, GICs, TFSAs, RRSPs and high-interest savings accounts.

"Motusbank is one of the first banks in Canada to offer fully digital mortgage applications," said David Moore, Motusbank's COO. "Currently, we only offer industry-standard mortgages through Motusbank. But we provide a number of non-standard mortgages through Meridian that we're planning to bring over to Motusbank."

Also on Motusbank's roadmap for 2021 are an unsecured lending product, a credit card, and an advisor-based wealth management offering.

"We're looking at piloting the advisor service in the first half of 2021," Moore said. "While we want to have a strong credit card product, it needs to be profitable. The credit card space is getting increasingly difficult, as interchange rates have fallen, but rewards haven't come down in the same fashion. So this is squeezing margins.Also, Covid-19 has led to credit card portfolios having a high provision for credit losses. There's an expectation that, once government Covid-19 subsidies end, we'll start to see a ramp-up in credit losses and personal bankruptcies."

OAKEN

Oaken Financial is the retail banking brand of Home Bank, a subsidiary of Home Capital Group which also owns Home Trust.

"When we launched Oaken seven years ago, we initially focused on providing GICs and savings accounts to people over 55 years old who are in retirement or approaching retirement," said Benjy Katchen, Oaken's EVP, chief digital and strategy officer.

"Unless someone is very high-net-worth, that's a very underserved segment in Canada."

As of 30 September 2020, Oaken had C$3.87bn in deposits, up 18.3% year-on-year and up 5.3% from the end of Q2 2020.

Katchen said that Oaken, Home Bank and Home Trust have been substantially upgrading their technology platform.

"As a result, we will launch a completely revamped digital banking experience for Oaken customers in the first half of 2021. The new platform, which will be designed to be mobile-first, will enable us to launch new products and service enhancements at a faster rate than we were able to do in the past."

Katchen said that these new products could include credit cards and chequeing accounts. Home Trust, which specialises in offering mortgages to people who have difficulty obtaining mortgages from the big banks such as the self-employed, also offers credit cards. "It would be a natural extension to offer Home Trust credit cards to Oaken customers on our new digital platform," said Katchen.

> "CWB IS CURRENTLY OVERHAULING ITS DIGITAL SYSTEMS, AND IN 2021 WILL INTRODUCE FULLY DIGITAL ON-BOARDING FOR CWB BUSINESS BANKING CLIENTS.

PC MONEY

President's Choice Financial, which owns the PC Money bank account is Canada's only supermarket bank. Owned by retailer Loblaw Companies, PC Financial also offers a range of Mastercard-branded credit cards. Currently, PC Financial has 3m Mastercard customers with over C$3bn in loans outstanding.

PC Financial had a supermarket banking partnership with CIBC from 1998 to 2017, when CIBC launched its own stand-alone digital bank Simplii.

In September 2020, PC Financial launched the PC Money account, which provides a prepaid Mastercard and offers unlimited everyday transactions and no monthly fees plus PC Optimum reward points on transactions. Customers can load funds into the account through payroll, direct deposit or via Interac e-Transfer. PC is one of Canada's most popular reward schemes, with 18 million members and earning points at 4,500 locations including Loblaws supermarkets and Shoppers Drug Mart. "We've always had our own banking licence,' said PC Financial's president Barry Columb. "But we don't see ourselves as a big bank, a fintech or a challenger. We play into our own space, because we're backed by a large retailer and are integrated into the retail experience.

"As a bank and a retailer, we had the credit card side of the retail payment process covered through our Mastercard products. More than half of payment transactions in Canada are on debit cards. So we knew there was a gap on the debit card side, where customers wanted to use their own money to pay for groceries, not credit.

We felt we could fill that gap by offering another payment product, the PC Money account, that allows you to access your own funds and be rewarded with PC Optimum points."

Columb said that PC Money customers may use another bank for full-service banking, but use their PC Money card for in-store and out-of-store spending and collecting rewards. "That's what we're after, customers who use our retail franchise and value our rewards," he said. "Uptake of PC Money surpassed our expectations for the first three months."

PC Money leverages Mastercard's prepaid technology for deposits and payment transactions, but has the attributes of a bank account such as bill payments, said Columb. "We offer our customers savings goals for their account, and reward them for achieving these goals through PC Optimum points," he said. "In addition to rewards points on purchases, we offer bonus points for bill payments, setting up linked bank accounts, and direct deposit. While we offer overdraft protection on the account, we don't have any other lending products tied to it." PC Optimum points can be instantaneously redeemed against purchases in-store.

"During Covid-19, customers have been redeeming their PC Optimum points for essentials, and are less attracted to other types of rewards," said Columb.

"So we thought it was the appropriate time to launch the PC Money account, as it would accelerate our customers' rewards-earning potential, enabling them to get the essentials that they need."

Because PC Financial has a banking licence and holds its customers' deposits, there will be opportunities for it to develop lending and other payment products, said Columb. ■

A LITTLE LESS FRAUD AND A LITTLE MORE INNOVATION, PLEASE!

Many might joke they want a refund for 2020. It was a testing year for many businesses, consumers, and governments alike. Yet, these tests have spurred innovation and accelerated the pace of change, advancing digital transformation by at least five years in the space of six months, argues *Gabe McGloin*

Many companies in the e-commerce space have been able to benefit, while others have changed their business models to cater to shifting consumer attitudes and remain agile to keep customers on side.

Throughout the turbulent year, the role of chargebacks has shifted to business critical. As consumers, we're provided the opportunity to initiate chargebacks – aka forced payment reversals – up to four months after the date of purchase; businesses may find it increasingly hard to provision for those chargebacks when evaluating cashflow and revenues. According to a Visa product and market review, 35% of sellers cite disputes as a top concern in their payment operations.

When several chargebacks happen all at the same time, it may feel like a carpet has been pulled from under the feet of the business. Despite these many challenges, I feel optimistic about 2021. When we count all the silver linings, such as the increased agility of companies, the appetite for innovation and the speed with which the fintech and payments sectors can make adjustment, I'm feeling hopeful. Here is where my optimism is rooted:

1. *Fraud will be squashed as e-commerce reigns supreme.*

Strong Customer Authentication (SCA), a key element of Payment Service Directive 2 (PSD2), will force sellers and acquirers to have effective transaction monitoring mechanisms in place, to detect unauthorised or fraudulent transactions. We are likely to see even more new financial technology and fintech innovation creating entirely new tools and pathways for people to shop, pay, and run a business securely. The stage is set for rapid adoption of new digital offerings and the market is ripe to oblige. As a result, we expect to see fewer disputes and less reported fraud – and the ratio will continue to go down as e-commerce continues to grow. By reducing fraud, many businesses will be able to reduce fraud-related chargebacks.

2. *The golden quarter will lose its shine.*

The three-month run-in to Christmas and the New Year will become less important: every day will be part of the golden quarter from now on. We can already see the changing patterns of behaviour with customers shopping from the comfort of their homes throughout the year. We've seen a boom in e-commerce, but we are unlikely to see a bust. People who started buying things online for the first time since the pandemic may well keep buying things online – a habit likely to become lifelong. This represents a growth opportunity for many enterprises. Chargebacks will follow a similar cycle and businesses should be ready for a steadier stream, not just a spike following the biggest sales quarter of the year.

3. *Pre-dispute resolution for chargebacks will become the next best 'insurance policy'.*

The pandemic has thrust chargebacks into the limelight. Automated pre-dispute resolution tools, based on rules defined by the seller, will help firms manage eventualities linked to customers not getting quite what they've expected. While large enterprises may be less concerned about the impact of chargebacks, as their revenue streams are more diverse, SMEs depend on few revenue streams and must keep a keen eye on their dispute-to-sales ratio. Chargebacks are likely to be more damaging to smaller businesses, but luckily the issue is surmountable with pre-dispute solutions in place next year.

4. *Delegated authentication is unlikely to automatically 'outsource' all problems.*

Payment card issuers have enabled new frameworks, whereby sellers can perform two-factor authentication themselves in line with SCA rules. This puts sellers in charge of the user experience, subject to strict technical and fraud conditions. The trick is to ensure all sellers – big and small – are ready for this change and can reap customer loyalty benefits. While it's likely to benefit bigger businesses that could be more ready to implement this solution, many sellers could consider the benefit of changing their acquiring bank to one that offers pre-dispute solutions for chargebacks.

5. *Brexit could tip the scales leading to more chargebacks.*

The probability of chargebacks following Brexit could rise – due to delays at customs and how people consume products and services. However, we are likely to see more bargains, more choices, some positive changes in the supply chain where more products are made available and consumed locally, positively impacting user experience.

If last year has taught us anything, it's that unwarranted chargebacks are no trivial issue.

When resources are tight, many sellers could opt out from disputing friendly fraud or think they may not be able to prove chargebacks are not legitimate, meaning claimants are in pole position to win the case. The economic strains wrought by the pandemic could be encouraging these unwarranted disputes, too, as the increase in card-not-present (CNP) transactions linked to e-commerce leads to a corresponding rise in CNP fraud claims.

Fortunately, I see the technologies likely to emerge this year as being poised to provide a remedy for the possible increase in unwarranted chargebacks. The tireless pursuit of technological innovation and the commitment to building collaborative products that support continued growth in the marketplace – these are the ingredients that make me optimistic for the protection and support of businesses in the coming year. ■

Gabe McGloin is Head of Business Development EMEA at Verifi

CHALLENGES AND CHALLENGERS: SME SPECIALISTS SHOW PROMISE IN 2021

The UK's challenger banks face a difficult year ahead, with a depressed economic outlook and an increasingly competitive marketplace. However, the prospects are brighter for players that focus on a target audiences, such as small and medium enterprises (SMEs). *Jane Cooper* reports

Challenger banks, app-only banks, neobanks – regardless of how they are described – the UK now has plenty of them. More choice for the consumer, however, means more competition and more pressure in what is already shaping up to be a difficult year. As the players jostle for market share, observers comment that those focused on a particular segment will fare better, and are more likely to survive, in the challenging market and economic environment.

"The challenger banking sector is definitely under some pressure as we go into 2021," says Simon Kent, global head of financial services at Kearney, a global consulting firm. Organisations that don't have the scale or the reach of the largest banks, and don't have a specialisation or niche — those that are stuck in between — are going to be very challenged in 2021 and 2022, he says. Kent adds he expects to see consolidation in the market in the year ahead.

UK challenger sector: increasingly overcrowded

The number of players has been growing in the UK, adding to an increasingly crowded market. Since July 2019, eight banks received licences: Allica, Jamaica National UK, GKBK, Oxbury FS, Castle Trust Capital, Distribution Finance Capital, Monument, and Recognise Bank.

Marcel van Oost, an early-stage investor in neobanks and commentator on the industry, doesn't expect a new big name to emerge in the year ahead – that is, one that will have the success and recognition that will match the likes of Revolut, Starling or Monzo. The challengers that are most likely to be successful, Van Oost says, are those that focus on a particular niche. He notes a trend in other markets of niche players emerging, such as banks that are focused on women, minorities, or influencers.

A number of the UK's newest banks are focused on particular customer segments. For example, Allica, which received its licence in September 2019, describes itself as an expert in SME banking, and offers savings accounts, commercial mortgages, asset finance, as well as personal savings accounts. And Recognise opened its four branches to business customers in December 2020, and offers lending of between £100,000 to £5m to property investors, business owners and financial firms. Meanwhile, Monument, which was authorised in October 2020 and is focused on high-net worth professionals, is expected to launch soon.

UK challengers: record investment in 2020

Henry Whorwood, head of research and consultancy at Beauhurst, a business data provider on startups in the UK, explains that investment in new banks has been growing in recent years. Last year saw a record number of investments into challenger banks, he says. There were 42 deals that invested into challengers in 2020, compared to only 21 in 2016 – a doubling in that period. Whorwood notes a trend of challengers focusing on business banking. "The consumer banking market it pretty saturated," he says, adding that new players in the consumer space are trying to enter business banking, as well as the emergence of challengers that are solely focused on business banking.

Existing challengers such as Monzo, Revolut and Starling all offer business accounts. And there are a number of other providers that are focused on small businesses and the self-employed, such as Tide or Coconut. Others focus on lending to small and medium businesses, such as OakNorth Bank. The bank was authorised in 2015 and offers personal savings accounts as well as business and property loans to the 'missing middle' of growth businesses that have not been well served by the larger traditional banks. On OakNorth and the chances of success of the challengers in the market, Whorwood comments, "If you had to back only one horse, that might be it."

'Not an easy market to crack'

Although observers are optimistic about the business specialists, the current environment is still tough for them. Zilvinas Bareisis, head of retail banking at Celent, says "Business banking is certainly getting a lot of attention," adding that many are targeting the SME sector because the bigger banks are not doing a good job of servicing them. "It is not an easy market to crack," he comments. There is complexity in the needs of small companies, and many SMEs are struggling because of the pandemic – either with staff on furlough or businesses that are on the verge of collapse.

Another difficulty for challenger banks is that many have relied on card revenues from interchange fees, which have dropped as customers are no longer travelling and spending abroad. "Cross border revenues have disappeared - it has hit quite a few of them," Bareisis says of the banks that have

relied on interchange fees. For challengers that have built their businesses on the idea of international travel - such as Revolut's foreign exchange solutions - or everyday spending, such as Monzo's initial prepaid offering, the current environment is tough. "In a world where people are not going out of their homes and spending money, it is hard to see how that model works in the world we live in with Covid," says David Brear, CEO of financial consultancy 11:FS.

Despite these challenges, however, there are reasons to be positive about the fate of the challengers in the months ahead. Brear notes that by a number of measures the challengers are doing well, with the number of downloads of their apps, net promoter scores (NPS), and numbers of customers using the seven-day current account switching service to move to challengers, are all positive. "It shows the demand for the challengers," says Brear.

In January 2021, for example, the Revolut app had more than 10 million downloads from the Google Play Store. This compares to Barclays having more than 5 million, and both Monzo and Starling trailing behind and only hitting the 1 million download mark.

Customer acquisition costs continue to rise

Although the challengers are reporting a growth in customer numbers, Kent at consultancy Kearney points out the acquisition costs continue to grow as the customer numbers increase; once a challenger hits a certain threshold it becomes even more expensive to acquire more customers. And Bareisis at Celent notes that although the number of customer accounts is a key metric, very few people use the challenger bank as their primary account. Rather, they use it for a specific purpose, such as FX and travel spend, or budgeting. "Challengers are struggling to make a primary relationship," says Bareisis.

Research released in January 2020 by Ogury, a digital advertising company, found that if all the challenger apps were combined, only 14% of the survey sample actually used those apps. This finding is also supported by YouGov research - also released in January 2020 - that found only 8% of respondents used digital-only banks, and most preferred to use the apps of the largest high street banks. This, however, does not mean that the incumbents should rest on their laurels after seeing these low usage figures; the challengers may overtake them eventually if they are able to successfully grow with their younger customers as they become more financially active. Aside from customer numbers and usage figures, there are other indicators of the challengers' likelihood of success. Whorwood at Beauhurst says that investment in the challengers is an important measure as it signals a company's survival prospects in the face of a challenging environment. "The field will get crowded and whittle down — through acquisition, and some will start to die. The ones with the most investment can last the longest," he says.

Of the commercial viability for the challengers in the long run, Brear is optimistic. "I think they will make money," he says, pointing to Starling's recent announcement that it had made a profit.

He also says he expects the challengers will bring out a broader product set as it is difficult when a current account and overdraft lending is a bank's main source of revenue and profitability.

Profitability challenge

Kent at consultancy Kearney agrees. "Profitability is a challenge for many," he says. "In terms of customer experience, simplicity, transparency and digital capability, the challengers have really raised the bar, but there has not been much lending," he says. "The credit balances are very low. If they are not working both sides of the balance sheet - if they are not lending money - the economics do not work."

Van Oost is optimistic about the prospects for those challengers that have a focused niche. For those challengers that focus on consumer banking, he argues there is not that much difference for a regular customer of a high street bank if they switch to a challenger. However, for business customers, or self-employed freelancers, the challenger proposition is far more compelling. Tide, for example, (an e-money institution provided by Prepay Solutions) enables self-employed customers to open a business account in a matter of minutes from their phone, compared to high street banks that require a meeting in the branch along with plenty of paperwork. For business customers, these neobanks really make a difference, Van Oost says. In terms of the commercial viability, he says, "With business banking there is potential. People are more used to paying for services if they are a business."

When it comes to predicting which of the business-focused challengers are most likely to be successful, Kent refers to research that his consultancy Kearney has conducted. "Based on our analysis, those that are focused on business banking, and have a reasonable amount of lending volumes, are the ones that are successful from an economic point of view," says Kent. "They are challenged though - there are so many coming into that sector - there is not enough space for them all to be successful." ■

" IN JANUARY 2021, FOR EXAMPLE, THE REVOLUT APP HAD MORE THAN 10 MILLION DOWNLOADS FROM THE GOOGLE PLAY STORE.

MONZO WILL NEED TO FOCUS ON ONLY THE ESSENTIAL TO AVOID XINJA'S FATE

By realising too late that the bank needs to work on products that give it a sustainable future, rather than features that aren't essential, Monzo faces being the first UK challenger to be forced out of banking unless it changes its approach, argues GlobalData analyst Katherine Long.

"It is easy to see in hindsight why Australian challenger Xinja failed in banking. Any bank offering above-market deposit rates while not being able to deploy them back as loans was going to have problems," She says. "Add to this a financial regulator reluctant to let it lend and a struggle to raise enough investor capital, and it's clear it was all going to end in tears."

However, these are just symptoms of something bigger. Research from GlobalData's *Beyond the Hype: Insight into Digital Challenger Banks* report has shown that behind all of these problems was an underlying cause: the lack of focus on the essential and the seeming inability to think several steps ahead.

Even recently, Xinja still had big plans for the kind of features it wanted to offer. These included using data to personalise the banking experience, such as warning customers in real time when they enter a shop that they don't have enough money for their normal groceries.

"As interesting as this sounds, it is a 'nice to have,' not an essential. The bank did not prioritise early on trying to create a sustainable future with revenue-generating products, and when it finally dawned that it needed personal loans and wealth services instead, it was too late," Long tells RBI.

Not the only bank…

However, Xinja is not the only bank to make this mistake, with several challengers also currently in this mess. One of them, Monzo, having woken up last year to this predicament, is struggling hard to get out.
For Monzo, the problems are only slightly different, though not much better. By creating a leading current account product that generates practically no revenue, either from merchant or marketplace fees, its business has become an increasingly expensive charitable cause for the UK market. And while the bank has raised $717m of capital to help fund new products and cover a potentially lucrative US expansion, the result is annual losses of around £100m ($131m) that need to be dealt with now.

Monzo's response is to monetise with a range of premium accounts, combined with new restrictions on the free, basic version. However, with little appetite from UK consumers to pay for banking and with Monzo not legally able to charge for accounts in the US, this direction seems misconceived.

While Monzo has done well to attract and engage with its customers, it threatens to throw that away by not concentrating on the essential. Instead of trying to sell what was once free, Monzo should focus on unit economics, bringing out and making the most of revenue-generating products such as loans and wealth services.

The bank should also learn from the likes of Chime in the US, who have given low-income customers the tools to help them manage their money easier on conditions such as using their cards or receiving customers' monthly salary. Failure to learn from these examples will condemn Monzo to the same fate as Xinja.

The above analysis comes from an in-depth review of 11 digital challengers banks present in GlobalData's latest report *Beyond the Hype: Insight into Digital Challenger Banks.*

GlobalData 2020 Banking and Payments consumer survey

Despite a promising start for digital-only banks, the UK as a whole remains unconvinced. The GlobalData 2020 Banking and Payments Survey found UK respondents are less likely than consumers globally to believe digital-only banks are better.

Specifically:

- 29% net consumers agree digital banks offer better rates vs. 49% globally.
- 20% net agree they offer more advanced digital banking vs. 43% globally.
- 8% and 5% net agree they offer better security and a better service respectively vs. 32% and 31% globally.

70% of UK respondents prefer a traditional bank for a current/savings account vs. 59% globally, while just 11% would choose a digital-only bank, compared to 15% globally and half the rate of countries like Brazil. There has also been surprisingly little movement since 2016 in terms of overall UK opinion of digital-only banks. This suggests that while challengers like Monzo or Starling are likely to be initially successful, they will have to overcome the inertia practically built into the market. ■

FEBRUARY NEWS

HSBC to close accounts if customers refuse to wear mask

HSBC Bank says the wearing of face masks is now compulsory in all its branches, a measure designed to comply with the government's face-covering mandate.

The London-based multinational bank has warned customers that their accounts will be "withdrawn" if they refuse to wear a face mask.

A spokesman said bank employees will strictly enforce the injunction to comply with the government lockdown guidelines, as the death toll from the pandemic continues to mount.

Jackie Uhi, head of branch network for HSBC UK, said: "Our branch colleagues are key workers are continuing go to work in our branches every day so that customers who need them can access essential financial services. "Sadly, some people are failing to protect themselves, our branch colleagues and other customers by refusing to wear a face covering inside our branches or observe social distancing. "Our colleagues deserve respect and should not have to face violent or abusive behaviour. Consider whether you need to visit the branch or could manage your banking from the safety of your home via our digital channels.

"If you do visit us, please wear a face covering and maintain a safe distance from others. If individuals put themselves or our colleagues at risk, without a medical exemption, we reserve the right to withdraw their account."

The Post Office also said in turn that customers must obey the law but warned it will not be enforcing measures.

A spokesman for the postal service said: "Postmasters that they can ask a customer who is not wearing a face mask if they are medically exempt, but the customer is not required to provide medical proof if they do not have it with them when they visit a branch.

"Post Office will implement any updated guidance issued by the UK Government or Devolved Governments. At this stage, Post Office has not advised Postmasters to refuse entry to any customer that does not have a face mask."

It comes as the UK recorded its second deadliest day since the pandemic began last March. ■

FCA'S SURVEYS REVEAL 4000 FIRMS AT RISK OF FAILURE

The Financial Conduct Authority (FCA) has published the findings of its Covid-19 financial resilience surveys, revealing that 4000 firms are at risk of failure.

In response to the crisis, the FCA has monitored the effects of the economic downturn on firms' solvency. To do this, the regulator has rapidly increased the data it collects on firms.

Around 19,000 firms responded to an FCA survey, which was used to assess the impact of Covid-19 on their financial resilience. In addition, the FCA has been using existing regulatory reporting data, enhanced data purchased from a third-party provider, and in-depth analysis of liquidity for a number of the most significant firms.

Sheldon Mills, Executive Director of Consumers and Competition at the FCA, said: 'We are in an unprecedented – and rapidly evolving – situation. This survey is one of the ways we are continuing to monitor the potential impact of coronavirus on firms. A market downturn driven by the pandemic risks significant numbers of firms failing."

The results show that between February and May/June 2020, firms across the sector experienced significant change in their total amount of liquidity. This was defined as cash, committed facilities and other high-quality liquid assets.

Three sectors saw an increase in liquidity between the 2 reporting periods: Retail Investments (8%), Retail Lending (8%) and Wholesale Financial Markets (83%). The other three sectors saw a decrease in available liquidity: Insurance Intermediaries & Brokers (30%), Payments & E-Money (11%) and Investment Management (2%).

Mills added: "At end of October we've identified there are 4,000 financial services firms with low financial resilience and at heightened risk of failure, though many will be able to bolster their resilience as and when economic conditions improve.

These are predominantly small and medium sized firms and approximately 30% have the potential to cause harm in failure. ■

LEADING CZECH BANK TAPS TEMENOS TO BOOST DIGITAL BANKING

Komerční banka, one of the largest banks in the Czech Republic, has chosen Temenos Transact to digitally transform its banking and future-proof its business growth.

Komerční banka is a universal bank providing a wide range of services in retail, SME, corporate and investment banking to more than 1.6 million customers.

It ranks among the leading banking institutions in the Czech Republic and in Central and Eastern Europe.

Temenos will decrease time to market for innovative current, savings and deposit account services and lending products.

It will also streamline straight-through-processing across its retail and corporate banking operations.

Komerční banka's services are accessible through a network of more than 240 branches as well as digital banking channels including mobile and internet banking. The modernisation of its core system with Temenos constitutes a crucial step in Komerční banka's long-term strategy to reinforce its leadership in digital banking in the Czech Republic. Simplification of IT systems and consolidation on Temenos' platform will enable Komerční banka to bring new products to market faster.

It will also enable Komerční banka to deliver an enhanced service with real-time processing and acceleration of customer journeys in retail and corporate segments.

Additionally, Temenos' flexible and agile technology will allow Komerční banka to rationalize its product portfolio and provide a foundation to future-proof business growth. Komerční banka has a reputation as a digital leader. Temenos API-first technology will allow the bank to accelerate the development and integration of new services. Komerční banka offers a diverse range of deposit, credit, lending and payment services. ■

BARCLAYS GETS £26M FOR MISTREATING CUSTOMERS IN FINANCIAL DISTRESS

The Financial Conduct Authority (FCA) has fined Barclays Bank £26m for "failures in relation to their treatment of consumer credit customers who fell into arrears or experienced financial difficulties".

Mark Steward, Executive Director of Enforcement and Market Oversight, said: "Consumers should feel reassured that their lender will work with them to help resolve any financial difficulties, whereas Barclays's poor treatment of its customers risked making these difficulties worse.

"Firms must treat consumer credit customers fairly, including when they find themselves in arrears. We will take action against unfair treatment, or where firm systems expose customers to the risk of unfairness.

"While this case predates the pandemic, this message is especially important as the impact of coronavirus continues to affect household incomes and budgets."

The FCA said: "Barclays has pro-actively redressed these customers, paying over £273 million to at least 1,530,000 customer accounts since 2017.

The redress programme is close to completion."

Between April 2014 and December 2018 some retail and small business customers who had been offered consumer credit were treated poorly when they fell into arrears.

The FCA found that Barclays failed to treat customers fairly or to act with due skill, care and diligence.

Specifically, Barclays:

- failed to follow its customers' contact policies for customers who fell into arrears
- failed to have appropriate conversations with customers to help understand the reasons for the arrears
- failed to properly understand customers' circumstances leading it to offer unaffordable, or unsustainable, forbearance solutions

The FCA requires consumer credit firms to take adequate measures to properly understand customers' financial difficulties. It also requires firms to show forbearance and due consideration to customers in arrears or in financial difficulties.

Otherwise, a customer under financial pressures could end up making payments on a consumer credit loan at the expense of a priority debt, such as a mortgage, council tax, child support and utility bills. Barclays identified some of the problems as early as 2014, but due to systems and controls failings these were not fully rectified. Adequate measures to resolve the problems were subsequently taken.

Barclays has contacted all customers whom they think may be due for compensation. The FCA has monitored this programme.

The FCA took the redress programme into account when setting its fine. ■

CAIXA GERAL DE DEPÓSITOS SIGNS UP WITH BACKBASE

Caixa Geral de Depósitos (CGD), Portugal's largest bank, has partnered with engagement-banking technology provider Backbase to accelerate its digital innovation and consumer engagement.

The collaboration will enable the Portuguese bank to create new digital banking channels across all its business lines. The goal is to achieve a seamless customer experience, starting with SME customers, the companies said in a release.

With the support of Backbase technology, CGD will launch a range of new initiatives, including building Portugal's first-ever fully digital SME onboarding solution. By replacing legacy systems and bringing together previously siloed banking channels, CGD will be able to improve its customer experience across all touch points. Leveraging a holistic platform approach across multiple business lines and countries will allow CGD to significantly decrease the time to market for launching new digital banking solutions.

The Lisbon-based bank will also be able to reduce its customer acquisition costs and benefit from more reliable and robust technology. The partnership with Backbase underscores CGD's dedication to providing seamless banking experiences to all its customers, the bank said. These experiences include frictionless self-service and digital onboarding, it added. The collaboration also demonstrates how the bank is rapidly innovating to meet changing customer demands in today's digital-first world, according to CGD.

"Our technology journey will allow us to provide all our customers with competitive advantages, guaranteeing the excellent service and efficiency they expect," Rui Negrões Soares, Head of Digital at Caixa Geral de Depósitos, said. Matthijs Eijpe, Regional Vice President for EMEA at Backbase, added: "By providing a holistic platform that connects all business lines and reduces spend, we're empowering Caixa Geral de Depósitos' to innovate more freely and effectively. By creating huge efficiencies, our platform empowers banks to focus on meeting the needs of their digitally savvy customers." ■

TESCO: CUSTOMERS' BANK ACCOUNTS DEBITED MONTHS AFTER FUEL STATION GLITCH

Tesco customers are seeing red after a technical defect caused their bank accounts to be debited—often multiple times—months after using the retailer's petrol stations.

A growing number of customers are complaining they hadn't budgeted for the unexpected payments and lack the funds to cover the charges.

Tesco has promised to refund the affected customers and make good any bank charges incurred.

The technical issue occurred at certain dates over a period of three month: October, November, and December 2020. Petrol pumped at a number of Tesco filling stations were not charged to customers at the time, the company says.

When the error was discovered, the customers' credit and debit cards were charged—two or three months after the event.

The snafu also affected purchases made at certain kiosks, between October and December.

Tesco says it was unable to contact all the customers to inform them of when the payments would be taken. The reason: the supermarket doesn't have the contact details of all the customers.

The company has not disclosed the number of customers affected, nor which petrol stations were impacted.

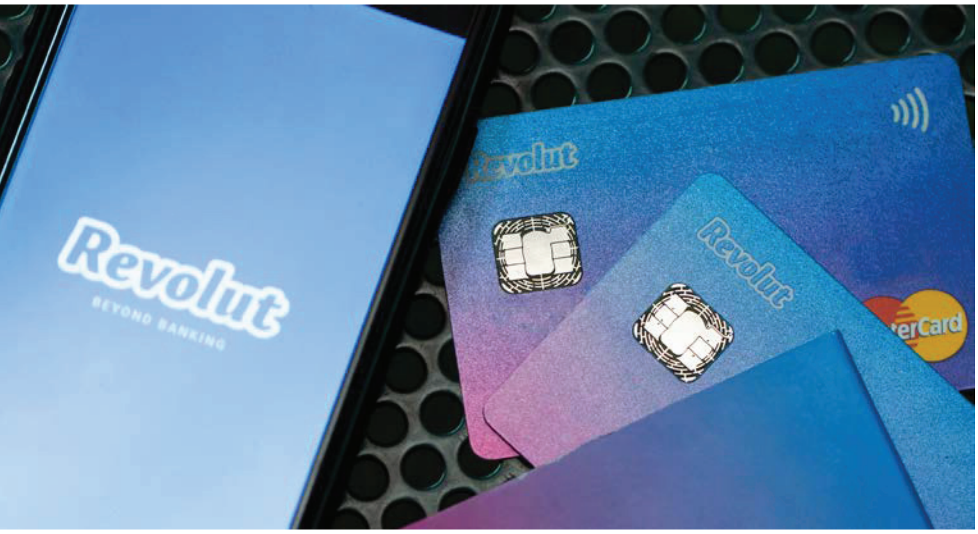
However, from the torrent of customer complaints on social media, it appears the problem was not confined to a particular area of UK. Forecourts mentioned by the griping customers include one in Lincoln, Lincolnshire and another in Irvine, North Ayrshire.

Tesco says all the relevant bank accounts have been debited. So, anyone who suspects they might be affected is advised to check their bank or credit card statement.

It's not the first time such an incident has happened at Tesco.

In 2018, Tesco had to apologise to customers after taking up to three months to process thousands of payments made in 300 of its Express stores. ■

Revolut and Investec launch USD Savings Vaults for UK



Revolut has launched easy-access USD Savings Vaults for its UK customers, in collaboration with its partner bank Investec.

The Revolut Savings Vaults offer interest rates of 0.65% AER for Revolut Metal subscribers, 0.50% AER for Premium customers, and 0.40% AER for Plus customers on USD funds.

In addition, there is no minimum deposit amount, and customers can round-up their card payments to save their spare change. Customers can also deposit money into their Savings Vaults via regular one-off transfers.

UK customers can choose to save in GBP, with Metal and Premium subscribers earning 0.40% AER and Plus subscribers earning 0.20% AER. Nik Storonsky, founder and CEO at Revolut, said: " Many of our customers choose to hold a number of different currencies in their Revolut accounts, and now we're able to help their money grow with daily interest while they're holding GBP or USD. It's just another way that we're helping our customers get more from their money. "The decline in interest rates over recent years has directly impacted the options that people have when it comes to saving. We're delighted that we can now offer our UK customers one of the most competitive rates in the country, with complete flexibility and protection. As we start 2021, we're looking forward to helping our customers save and manage their money more effectively."

The Revolut Savings Vaults are limited to £85,000 ($116,000) and are protected by the Financial Services Compensation Scheme (FSCS) through Investec. David Hunt, head of funding partnerships for Investec, said: "By empowering and encouraging its customers to take greater control over their savings, Revolut is further strengthening its position as a leading financial services platform for the retail market. With attractive rates of interest and easy access to funds, Investec is excited to provide products for use within Revolut's Savings Vaults.

"By partnering with Revolut, we will widen our distribution within the UK digital savings market at a time when savers are progressively looking for easy to manage digital solutions. We're delighted to be working closely with Revolut as we support digital platforms in the financial services sector with market-leading savings accounts."

Personal Vaults enable customers to hold over 30 currencies. Furthermore, the feature allows users to invite friends or family to a Group Vault to save for goals together.

Group Vault owners can now also give withdrawal permissions to other members, giving owners control over who can take money out. ■

MAMBU SECURES €110M IN FUNDING ROUND BACKED BY TCV

SaaS banking platform Mambu has secured €110m ($135m) in its latest funding round, bringing the company's valuation to over €1.7bn ($2.1bn).

TCV led the funding round, whose investments include Netflix, RELEX, Spotify, and WorldRemit. Further investors included Tiger Global and Arena Holding, Bessemer Venture Partners, Runa Capital, and Acton Capital Partners.

Through the new funding, Mambu aims to accelerate its growth and deepen its footprint in over 50 countries in which it already operates. The fintech also has plans to focus on markets like Brazil, Japan, and the US.

Eugene Danilkis, co-founder and CEO of Mambu, said: "This latest funding round allows us to accelerate our mission to make banking better for a billion people around the world and address one of the largest, most complex global market opportunities that's still in the infancy of cloud."

Since its launch in 2011, Mambu's platform is used by traditional banks, as well as fintechs, with the likes of ABN AMRO, N26, OakNorth, Orange, and Santander among its customer base.

Danilkis added: "When Mambu launched in 2011, we knew the future of banking would have to be built on agile and flexible technology. Nearly a decade later, this is more true now than ever, particularly given developments over the past year.

"As an increasing number of challenger and established banks sign on to prepare themselves to thrive in the fintech era, we have, and will continue to provide them with a world-class platform on which to build modern, agile customer-centric businesses." As part of its expansion plans, Mambu is also planning to double the team to over 1000 employees by 2022.

John Doran, TCV General Partner, said: "Mambu was one of the first companies to leverage the opportunity to move banking software into the cloud. The team has built a highly composable, truly cloud-native product in a multi-billion dollar, rapidly-growing market traditionally dominated by large, slow-moving on-prem vendors.

"We have been following Mambu's progress for many years and are truly delighted to be able to partner with Eugene and the entire Mambu team on their journey to expand their offerings to customers worldwide." The announcement comes after the fintech partnered with Google Cloud to expand its services globally. Through this partnership, Mambu aims to launch and extend its banking and lending operations in additional countries on the cloud-agnostic platform. ■

DATA MUST FLOW IN ALL DIRECTIONS FOR OPEN BANKING TO TRULY SUCCEED

Open banking was lauded as a game changer for financial services to revolutionise their offerings and promote competition in the industry. But it is now three years since Open Banking began in the UK, and it has fallen short of this vision thus far, writes *Kam Chana*, Product Innovation Director, Temenos


Kam Chana, Temenos

Some good progress has been made. The UK leads open banking on a global level thanks to defined and imposed regulatory requirements and a dedicated central platform funded by the country's nine biggest banks. Over two million customers are now using open banking-enabled products.

However, to date, it hasn't perhaps had the revolutionary impact that some expected. Neither the pace of development of new services nor the level of consumer awareness are where they need to be, hindering the full promise of what open banking can unleash.

From open banking to open data

Open banking is a concept that is evolving into open data. Banks are increasingly looking at how they create alliances with organisations beyond banking. Look further down the line and we can see the potential of super apps such as WeChat and Alipay, which have shown the value of catering for the broader lifestyle needs of customers. Other such platforms are springing up across the world, allowing customers to do everything from a single mobile app.

We know banks are actively seeking this kind of transformation. A report we released last year in conjunction with the Economist Intelligence Unit revealed that nearly half of global banking executives aim to transform their business models into digital ecosystems that integrate their own products and services with third-party banking and non-banking products and services. One of the biggest issues holding back these types of alliances in furthering open banking innovation is the lack of mandate in other sectors outside of financial services.

There is no technical reason a bank should not become a curator of a broader range of non-banking services provided to their customers via a convenient digital platform. Indeed, open banking provides an opportunity for banks to unlock new revenue sources by collaborating with partners, becoming marketplaces for third-party products and services.

However, the creation of these innovative, data-driven, hyper-personalised products and services relies on access to quality and relevant data. Providing a secure, standardised way of sharing data across sectors and geographies would make the development of innovative customer-centric solutions much easier.

At present this is not the case. But if governments and regulators find a way to open this kind of data sharing framework the possibilities for developing innovative solutions to customer problems expands significantly.

A level playing field

When we think about companies launching into new industries, it is of course global tech giants who are leading the charge. Big Tech is moving into everything from automotive to healthcare and banking is no exception. Amazon is expanding the scale of its lending to businesses. Facebook has entered the payments market. Google is planning the launch of consumer bank accounts.

Yet under open banking rules, while banks are obliged to hand over the data of a customer who wants to work with a new provider of financial services, the same is not true in reverse. A third-party such as a tech giant can ask a bank for a customer's data, but a bank can't ask the same of a tech giant. This concept of reciprocity was introduced as a core principle of the original blueprint for Australia's open banking initiative, suggesting that any company wishing to receive data from banks should be obliged to provide their own customers' data, as long as the customer consents to it. Though the concept has since been watered down, banks are still campaigning for its full inclusion in the future development of the initiative.

Trust is key

Consumer trust is another key issue that must be addressed if open banking is to reach its full potential. Many consumers have a low or complete lack of understanding as to how they can control the data that banks hold about them and how companies process this data.

Many give consent for their data sharing to take place without fully appreciating they have done so. This lack of understanding can easily erode trust, and banks must become aware of this risk and take immediate action.

The more banks do with data, the more risks they take. It is vital that any time they use customer data, they do so with the protection of customers as a central pillar. When we talk to banks about designing solutions, protecting customers' data by following the spirit and not just the letter of the law, is a core principle. ■

Banking & Payments at a glance

GlobalData's **Banking & Payments Intelligence Center** is the **leading information service** that helps our clients to predict **market, competitor, customer** and **disruptor** moves

MARKETS

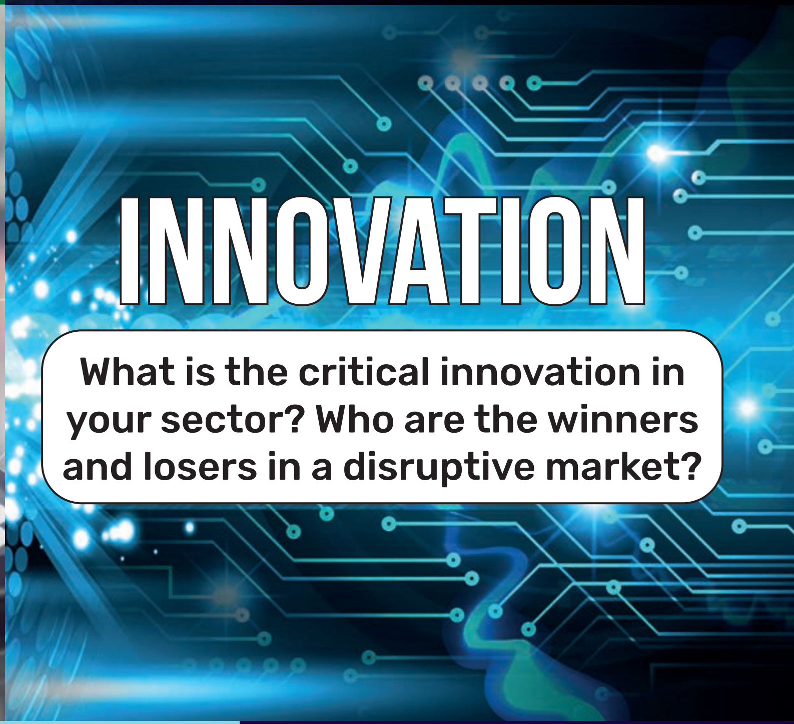
How fast will the market evolve? Which segments offer the greatest potential?

COMPETITORS

What are your competitors doing differently?
How successful are they?

CONSUMERS

What does tomorrow's consumer look like? Which products are they likely to try and adopt?



INNOVATION

What is the critical innovation in your sector? Who are the winners and losers in a disruptive market?